

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

UNITED STATES OF AMERICA,)	
1401 H Street, N.W.)	
Suite 3000)	
Washington, D.C. 20530)	
)	
Plaintiff,)	
)	
v.)	
)	
PREMDOR INC.,)	Civil No.: 01-01696
1600 Britannia Road East)	
Mississauga, Ontario)	
Canada L4W 1J2)	Filed: August 3, 2001
)	
PREMDOR U.S. HOLDINGS, INC.,)	
One North Dale Mabry Highway)	
Suite 950)	
Tampa, Florida 33609)	
)	
INTERNATIONAL PAPER COMPANY,)	
400 Atlantic Street)	
Stamford, Connecticut 06921)	
and)	
)	
MASONITE CORPORATION,)	
1 South Wacker Drive)	
Chicago, Illinois 60606)	
)	
Defendants.)	
)	

COMPLAINT

The United States of America, acting under the direction of the Attorney General of the United States, brings this civil antitrust action to obtain equitable relief against the defendants to prevent the proposed acquisition of the Masonite business of International Paper Company by Premdor Inc., and alleges as follows:

1. Masonite is the largest of only three significant manufacturers of molded doorskins, the primary component needed to manufacture molded doors. It is the only major molded doorskin manufacturer that is not vertically integrated into the production of molded doors. Premdor is one of two major manufacturers of molded doors. It is also both a small, but significant, competitor of Masonite's in the molded doorskin market, and Masonite's largest customer. The other significant manufacturer of molded doors, not a party to this action, is also a significant manufacturer of molded doorskins. The markets in which Masonite and Premdor compete are highly concentrated, but because of the current structure, the firms in the markets have varying incentives that make successful coordination more difficult and help maintain competition.

2. The proposed transaction, however, would change the structure of the markets significantly, resulting in each of the markets being dominated by two similarly sized and vertically integrated firms, and would remove some of the current constraints on coordination, creating incentives for the remaining firms to coordinate price and output. Accordingly, unless enjoined, the proposed transaction would substantially increase the likelihood of such coordination and higher prices, lower quality and less service in those markets, and likely would substantially lessen competition in violation of Section 7 of the Clayton Act.

I. JURISDICTION AND VENUE

3. This action is filed by the United States under Section 15 of the Clayton Act, as amended, 15 U.S.C. § 25, to prevent and restrain defendants from violating Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and to obtain equitable relief.

4. Defendant IP, through its subsidiary, defendant Masonite, develops, manufactures

and sells interior molded doorskins in the flow of interstate commerce. Defendant Premdor, along with its subsidiary Premdor U.S. Holdings, Inc. (“Premdor U.S.”), manufactures and sells interior molded doors in the flow of interstate commerce. Defendants’ activities in developing, marketing and selling interior molded doorskins and interior molded doors also substantially affect interstate commerce. This Court has subject matter jurisdiction over this action and jurisdiction over the parties pursuant to Section 12 of the Clayton Act, 15 U.S.C. § 22 and 28 U.S.C. §§ 1331, 1337(a), and 1345.

5. Premdor is a Canadian corporation that transacts business within the District of Columbia. Moreover, Premdor has consented to plaintiff’s assertion that venue in this Court is proper. Venue, therefore, is proper in this District pursuant to 15 U.S.C. § 22 and 28 U.S.C. § 1391.

6. Premdor U.S. is a Florida corporation that transacts business within the District of Columbia. Venue is proper in this District pursuant to 15 U.S.C. § 22 and 28 U.S.C. § 1391(b)(3).

7. IP is a New York corporation that transacts business within the District of Columbia. Moreover, IP has consented to plaintiff’s assertion that venue in this Court is proper. Venue, therefore, is proper in this District pursuant to 15 U.S.C. § 22 and 28 U.S.C. § 1391.

8. Masonite is a Delaware corporation that transacts business within the District of Columbia. Venue is proper in this District pursuant to 15 U.S.C. § 22 and 28 U.S.C. § 1391.

II. THE DEFENDANTS

9. Premdor is a Canadian corporation with its corporate headquarters and principal place of business in Mississauga, Ontario, Canada. Premdor produces interior and exterior doors.

Its line of wood doors includes molded, louvered and custom-made commercial and architectural doors. Premdor is the largest manufacturer and merchandiser of interior molded doors in the world. It manufactures, merchandises and sells interior molded doors to distributors, wholesalers, home centers and building-supply dealers across Canada, the United States, Mexico, Europe, Asia and the Middle East. Sales of interior molded doors in the United States accounted for about 23 percent of Premdor's total 2000 sales of approximately \$1.29 billion. Premdor also holds a 48.5 percent equity stake in Fibramold, S.A. ("Fibramold"), a Chilean manufacturer of interior molded doorskins. Fibramold is a Chilean closed corporation owned by Premdor, Forestal Terranova S.A., and Citifor (Chile) Holdings Limitada. Premdor is Fibramold's only significant interior molded doorskin customer in the United States.

10. Premdor U.S., a wholly owned subsidiary of Premdor, is a Florida corporation with its corporate headquarters and principal place of business in Tampa, Florida. Premdor U.S. owns Premdor's facilities located in the United States that are involved in the manufacture and sale of doors.

11. IP is a New York corporation with its corporate headquarters and principal place of business in Stamford, Connecticut. Its businesses include printing paper, packaging, distribution, chemical and petroleum products and building materials. IP operates in nearly fifty countries and exports its products to more than 130 nations. In 2000, IP reported net sales of approximately \$28.2 billion.

12. Masonite, a wholly owned subsidiary of IP, is a Delaware corporation with its corporate headquarters and principal place of business in Chicago, Illinois. Masonite is one of the world's largest manufacturer of fiberboard, which is processed into a variety of products,

including molded doorskins. Masonite manufactures interior molded doorskins in the United States at plants in Laurel, Mississippi and Towanda, Pennsylvania. Masonite sells interior molded doorskins to all of the non-vertically integrated door manufacturers in the United States. In 2000, Masonite reported total sales of approximately \$465 million, approximately half of which was generated through sales of interior molded doorskins.

III. THE PROPOSED TRANSACTION

13. On or about September 30, 2000, IP, Premdor and Premdor U.S. entered into a purchase agreement whereby Premdor, through Premdor U.S., agreed to purchase IP's Masonite business ("Purchase Agreement"). Premdor U.S. agreed to purchase 100 percent of the shares of Masonite, International Paper Masonite Holding Company Ltd. and Pintu Acquisition Company, Inc., as well as certain other assets and intellectual property rights. Premdor U.S. agreed to pay approximately \$374 million in cash for the shares and approximately \$153 million in cash for the other assets, bringing the total consideration for the transaction to approximately \$527 million, subject to post-closing adjustments.

IV. TRADE AND COMMERCE

A. Relevant Product Markets

1. Interior Molded Doorskins

14. A doorskin is the component which makes up the front and the back of a flush door. Two doorskins are required for each flush door--one for the front and one for the back of the door. Doorskins used to manufacture interior flush doors generally come in three types: hardboard, veneered or molded. An interior hardboard doorskin is a multi-ply facing of wood such as pine. An interior veneered doorskin is plywood with a thin veneered overlay of a wood

such as birch or oak. Unlike the hardboard or veneered doorskins, which have a flat surface, a molded doorskin is made from a high density fibrous mat formed into a raised panel design that looks like, but is much less expensive than, a solid wood paneled door.

15. A molded doorskin is formed from fibrous material such as wood chips or saw dust, which are softened in a digester, refined with wax and resin, then formed into a mat. The mat is cut into sheets and loaded into a hot press containing die sets to form paneled designs and textures. Separate die sets produce each design, size and texture of a molded doorskin. After coming off the press, the resulting doorskin is sized, trimmed, painted, packed and shipped to a door manufacturer.

16. Interior molded doorskins are used in the production of interior molded doors. An interior molded doorskin is the largest input cost of an interior molded door, comprising up to 70 percent of a door manufacturer's cost.

17. For the production of interior molded doors, there are no close substitutes for interior molded doorskins. A small but significant increase in the price of interior molded doorskins for use in manufacturing interior molded doors would not cause a significant number of purchasers of interior molded doorskins to substitute other doorskins.

18. The sale of interior molded doorskins in the United States for use in manufacturing interior molded doors is a line of commerce and relevant product market within the meaning of Section 7 of the Clayton Act.

2. Interior Molded Doors

19. Doors used in the interiors of new homes throughout the United States are predominantly flush doors, which are significantly cheaper than solid wood doors. An interior flush door is made by sandwiching a wood frame and a hollow or solid core between two doorskins. The doorskins used to manufacture an interior flush door generally come in three types: hardboard, veneered and molded. Molded doors are the most popular type of interior door in North America; approximately 55 percent of all interior doors sold in North America are molded doors. Interior molded doors attempt to simulate the aesthetics of solid wood doors at lower prices.

20. On a typical interior molded door manufacturing line, the door components are passed through a glue spreader and assembled. The assembled doors are then stacked in groups, cold pressed, allowed to cure and readied for shipment.

21. Interior flush door manufacturers sell to distributors, building supply outlets, home centers and lumber yards. Consumers purchasing doors to repair, renovate or remodel an existing home typically purchase doors from retail building supply outlets. Builders and contractors purchase doors primarily from distributors, lumber yards, home centers and building supply outlets.

22. No close substitutes exist for interior molded doors. Solid wood doors are not close substitutes for molded doors because they are significantly more expensive and are typically used only in the most expensive homes. Hardboard and embossed doors are not close substitutes for molded doors, as they are lower in quality and are typically used only in entry level homes, or, in utility rooms and garages. Veneered doors also are not close substitutes for interior molded

doors as veneered doors are used primarily in specialty applications. Historically, changes in the price of interior molded doors have not had a significant impact on the demand for hardboard or veneered doors.

23. A small but significant increase in the price of interior molded doors in the United States would not cause a significant number of purchasers of interior molded doors to substitute other doors.

24. The sale of interior molded doors in the United States is a line of commerce and relevant product market within the meaning of Section 7 of the Clayton Act.

B. Relevant Geographic Markets

1. Interior Molded Doorskins

25. The relevant geographic market within the meaning of the Clayton Act for interior molded doorskins is the United States. The vast majority of interior molded doorskins purchased by United States door manufacturers are produced in the United States.

26. Interior molded doorskins manufactured outside the United States are used to a limited extent in the United States, but the availability of those foreign-produced doorskins is not sufficient to defeat a small but significant price increase by U.S. manufacturers of interior molded doorskins. Foreign interior molded doorskin manufacturers have significantly higher delivered costs on sales in the United States compared to U.S. producers. This cost disadvantage, combined with long delivery times, limited numbers of product styles, quality concerns and capacity limitations, means that foreign manufacturers of interior molded doorskins cannot expect to sell enough additional interior molded doorskins to make a small but significant price increase by U.S. manufacturers of interior molded doorskins unprofitable.

2. Interior Molded Doors

27. The relevant geographic markets within the meaning of the Clayton Act for interior molded doors are regional markets emanating from the plants at which the doors are manufactured. These regional geographic markets for interior molded doors are smaller than, and located in, the United States, although some regional markets may cross the U.S./Canadian border. Due to transportation costs, interior molded doors are not ordinarily shipped further than about 300 miles from the point of manufacture. The number of imported interior molded doors sold in the United States is negligible.

28. A small but significant increase in the price of interior molded doors for sale in the United States would not cause a significant number of customers to purchase molded doors produced outside of their regional market.

C. Anticompetitive Effects

1. Structure of the Upstream and Downstream Markets

29. The markets for interior molded doors and interior molded doorskins are closely connected since doorskins are the primary input in the manufacture of doors. That customer-supplier relationship is one factor that affects competitive interactions in the two markets. In addition, there are only two major competitors in each market, one of which is a vertically integrated firm, not a party to this action (hereinafter the “non-party firm”), that therefore competes in both markets. Masonite presently is the largest of three significant players in the interior molded doorskin market and is not vertically integrated into the interior molded door market. Premdor is one of two major players in the interior molded door market and is a small, but significant, participant in the interior molded doorskin market. The proposed transaction,

therefore, would combine two competitors in the interior molded doorskin market and result in the combined Premdor/Masonite firm being vertically integrated into both the interior molded doorskin and interior molded door markets.

a. The Upstream Market--Interior Molded Doorskins

30. Only three firms make significant sales of interior molded doorskins in the United States. Two of those firms dominate the market--Masonite and the non-party firm. Masonite is the largest manufacturer of interior molded doorskins in the United States; in 2000, it sold over half of all interior molded doorskins used in the manufacture of interior molded doors in the United States. Masonite sells over half of its molded doorskins to Premdor, which also participates in the upstream market through its equity interest in the Chilean joint venture, Fibramold. In 2000, Fibramold sold less than ten percent of all interior molded doorskins used in the manufacture of interior molded doors in the United States

31. The non-party firm uses the majority of its interior molded doorskin production in the production of its own interior molded doors; the rest of its interior molded doorskin production is sold to non-vertically integrated door manufacturers.

32. There are a small number of other molded doorskin manufacturers, however, none of these sells even one percent of the interior molded doorskins sold in the United States.

b. The Downstream Market--Interior Molded Doors

33. In 2000, Premdor, the largest of two principal producers of interior molded doors in the United States, sold over 40 percent of all interior molded doors sold in the United States. Premdor's principal competitor in the downstream interior molded door market is the non-party firm. There are also approximately nine smaller, non-vertically integrated molded door

manufacturers. Each of these sells approximately five percent or fewer of the interior molded doors sold in the United States.

2. Substantial Lessening of Competition Post-Acquisition

34. The merger may tend substantially to lessen competition by making it easier for the remaining firms in the relevant markets to engage in coordinated interaction that harms consumers.

35. Presently, non-vertically integrated door manufacturers can purchase doorskins from Masonite and thereby increase production of interior molded doors in the event that Premdor and the non-party firm seek to raise prices or reduce output. Post-merger, Masonite would no longer be independent, and Premdor would have the incentive to raise doorskin prices and/or restrict doorskin sales to non-vertically integrated firms, thereby increasing the benefits to Premdor and the non-party firm of coordinated interaction. The merger would also make it more likely that Premdor and the non-party firm could coordinate behavior by reducing cost differentials and information asymmetries that presently make coordination more difficult.

36. The merger will also eliminate Premdor as an independent competitive constraint in the interior molded doorskin market. Following its equity investment in Fibramold in 1998, Premdor began to use Fibramold doorskins and was in a particularly good position to increase production of doorskins, which caused Masonite to reduce prices to Premdor and other non-vertically integrated door manufacturers. Removal of that threat makes coordination more likely.

37. These industries are highly concentrated, and there is a history of antitrust violations by door manufacturers: a Premdor subsidiary and several other door manufacturers pleaded guilty in 1994 to conspiring to fix the prices of residential doors and paid fines. In the

circumstances presented in these industries, the proposed transaction would significantly increase the likelihood of anticompetitive coordination.

3. Entry is Not Likely to Deter Coordination

38. The non-vertically integrated door manufacturers are not likely to expand output and defeat coordination between the two dominant, vertically integrated firms operating in the markets post-acquisition. Those two firms would have substantial control over the costs of the non-vertically integrated door manufacturers. Doorskin costs represent up to 70 percent of the cost of producing an interior molded door. By raising the price of doorskins to those downstream rivals, the coordinating firms could weaken the non-vertically integrated door manufacturers as a competitive constraint.

39. The non-vertically integrated door manufacturers do not currently have any other source of molded doorskins sufficient to defeat such coordination. As alleged above, they could not successfully turn to foreign manufacturers of doorskins. Nor are they likely to be able to turn to a new entrant. A successful new entrant would require at least two years to plan, design and build a plant, \$50 to \$80 million to invest and further time to test and debug the product and overcome reputation barriers. In addition, a new entrant could not successfully enter with a single style of molded doorskins, but rather would have to offer a range of styles. Such a hypothetical entrant would have to capture essentially all the business of the non-vertically integrated molded door manufacturers to achieve efficient, competitive scale and to make a reasonable return on its investment in entry. Accordingly, entry is unlikely to be timely or sufficient to deter post-acquisition coordination.

V. THE PROPOSED ACQUISITION VIOLATES SECTION 7 OF THE CLAYTON ACT

40. The effect of the proposed acquisition between Premdor and IP would be to substantially lessen competition in interstate trade and commerce in violation of Section 7 of the Clayton Act.

41. The transaction would likely have the following effects among others:

- (a) Competition generally in the development, manufacture and sale of interior molded doorskins in the United States would be substantially lessened;
- (b) Competition generally in the development, manufacture and sale of interior molded doors in the United States would be substantially lessened; and
- (c) The prices of interior molded doorskins and the prices for interior molded doors would likely increase, and the quality, innovation and service currently provided with both interior molded doorskins and interior molded doors would likely decline.

42. Unless enjoined, the proposed acquisition would violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18.

VI. REQUESTED RELIEF

43. The plaintiff requests:

- (a) That defendant Premdor's proposed acquisition of defendant IP's Masonite business be adjudged and decreed to violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18;
- (b) That defendants and all persons acting on their behalf be preliminarily and

permanently enjoined and restrained from implementing the Purchase Agreement and from entering into or carrying out any agreement, plan or understanding the effect of which would be to combine any part of the door manufacturing and molded doorskin manufacturing businesses of defendants;

- (c) That plaintiff be awarded its costs of this action; and

(d) That plaintiff receive such other and further relief as the case requires and the Court deems just and proper.

Dated: August 3, 2001.

Respectfully submitted,

FOR PLAINTIFF UNITED STATES:

_____/s/
Charles A. James
Assistant Attorney General

_____/s/
J. Robert Kramer II
Chief, Litigation II Section

_____/s/
John M. Nannes
Deputy Assistant Attorney General

_____/s/
Mark J. Botti (DC Bar No. 430266)
Assistant Chief, Litigation II Section

_____/s/
Constance K. Robinson
Director of Operations
and Merger Enforcement

_____/s/
Robert A. Potter
Chief, Legal Policy Section

_____/s/
J. Brady Dugan (VA Bar No. 31685)
Karen Y. Douglas
Joan Farragher
Joseph Miller
Michael Bodosky
Paul E. O'Brien
Trial Attorneys
U.S. Department of Justice
Antitrust Division, Litigation II Section
1401 H Street, NW, Suite 3000
Washington, DC 20530
(202) 616-5125